

RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

JUNE 2006

TFFR Board Proposes Study Bill

The TFFR Board has submitted Bill No. 68 to the interim Legislative Employee Benefits Programs Committee for study. Details of the proposal are explained below and are also available on the TFFR website under the Legislation link.

The proposal includes contribution and benefit changes, which along with positive investment returns, should improve TFFR's funding level and overall financial health without impairing legally protected contractual pension benefits for current active, inactive, and retired teachers and administrators.

The TFFR proposal:

- **Increases employer retirement contributions beginning July 1, 2007.**
 - Employer contributions would be 8.75% of active member's salary, instead of 7.75%.

- Employer contributions of 16.50% of reemployed retiree's salary would be required under the general rule and critical shortage options. Employer contributions would be reduced to 8.75% when retiree exceeds annual hour limit under general rule and member contributions become due.

- **Creates new tier of reduced member benefits for new TFFR members employed on or after July 1, 2007.**

Tier 1 members include all current active, inactive, or retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure.

Tier 2 members include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90, instead 85
- 5-year vesting, instead of 3
 - Early (reduced) retirement eligibility would be age 55 & 5 years of service (instead of age 55 & 3 years)
 - Normal (unreduced) retirement eligibility would be age 65 & 5 years of service (instead of age 65 & 3 years)
- Final average salary computed as a 5-year average, rather than as a 3-year average
- **Removes automatic refund requirement and reenacts various other provisions to comply with IRS qualification requirements.**

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ND Retirement and Investment Office

1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.nd.gov/rio

Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

Thank You Barb!

Special thanks to Barb Evanson for ten years of dedicated service on the TFFR Board. On behalf of all ND teachers, we congratulate you on your retirement from Bismarck Public Schools and wish you many happy and fulfilling retirement years!



Finding Balance

For TFFR active and retired members who faithfully read this newsletter, you know that TFFR's funding level has declined and unfunded liability has increased in the past 5 years. You also know why this has happened -- primarily investment returns in 2001-03 that were well below assumed rates. There were, of course, other contributing factors including benefit improvements, changes in actuarial assumptions due to members retiring earlier, living longer, higher salaries, declining number of active members, and other actuarial factors.

Recent TFFR investment returns have improved dramatically, but not enough to offset the earlier losses. When it comes to adequately funding a pension plan, silver bullets, quick cures, and fast fixes just don't exist. Instead, there are a number of long-term options that must be carefully considered with the goal of achieving actuarial balance. The TFFR Board has analyzed these alternatives, and has developed a legislative proposal to strengthen TFFR. The Board's proposal is found in Bill No. 68 which is described on page 1.

I believe that the Board's proposal is a proactive, modest, and balanced approach to addressing TFFR's funded status without harming legally protected pension benefits for active and retired members. If this legislative package is enacted and actuarial and investment assumptions are met, the financial condition of the TFFR plan strengthens and remains stable for decades to come.

What does TFFR's legislative proposal do?

1. Honors existing benefits for current members and retirees

TFFR's legal counsel, the ND Attorney General's Office, has advised the Board that the State cannot legally reduce retirement



Fay Kopp
Deputy Executive Director

plan benefits nor increase contributions from employees without a corresponding benefit improvement. This is due to the contract clause found in both the federal and state constitution which protects the rights of active and retired employees. Because of this advice, the TFFR Board proposal does not include changes to "legally protected" benefits or contributions of existing members, but does contain changes for current employers and future new members.

2. Increases employer contributions

Defined benefit plans like TFFR typically require both employee and employer contributions. At TFFR, contribution rates are fixed in statute and are 7.75% each. TFFR's legislative proposal increases the employer contribution rate by 1.0%. On the surface, this might appear to only impact employers. However, the Board recognizes that an employer contribution rate increase also indirectly impacts active teachers. Salary, retirement, and other benefits are all part of the total compensation package offered to teachers. Any increase in retirement contributions (even though designated as employer contributions) will reduce the total funds available for salary and other benefit increases.

3. Reduces benefits for future members

Creating two groups or tiers of member benefits acknowledges that the pension environment has undergone major changes over the past decade, and will continue to change in the future (i.e. fewer active teachers, more retirees, longer life expectancy, etc.). Under the TFFR proposal, both Tier 1 and Tier 2 benefit plans include the 2.0% multiplier. However, Tier 2 members would have to work longer before qualifying for normal retirement. Tier 2 member benefits would also be reduced because of the final average salary calculation.



A Balancing Act

In developing this proposal, the TFFR Board made every effort to balance the needs of your trust fund with the needs of you and your employer. While increases in employer contributions and reductions in benefits for new hires will be difficult to manage, the Board believes both members and employers share the responsibility of future changes to the TFFR plan.

TFFR is financially capable of meeting its pension benefit obligations for many years to come. However, now is the time to make funding improvements to ensure that future generations of ND educators will inherit a system as strong and reliable as the one we have today. North Dakota's teachers – past, present, and future – deserve no less.

Interim Legislative Study Process

The Legislative Council Employee Benefits Programs Committee (EBPC) provides legislative oversight on retirement and insurance related issues. As part of its statutory responsibilities, the Committee must thoroughly study and make a recommendation on any measure or proposal which affects the retirement or insurance program of teachers, state employees, and other political subdivisions.

Members of the EBPC for the 2006 interim include:

Rep. Matt Klein (Chairman)
Rep. Al Carlson
Rep. Joe Kroeber
Rep. Ken Svedjan
Rep. Francis Wald
Sen. Ray Holmberg
Sen. Ralph Kilzer
Sen. Karen Krebsbach
Sen. Carolyn Nelson

The EBPC meets between legislative sessions and receives information about the retirement plans, actuarial reports, special studies, and other related matters. Committee meeting dates, agenda, and

minutes are posted on the ND Legislative Council website at: <http://www.legis.nd.gov/council/interim/>

April 1, 2006, was the deadline for submitting legislative proposals to the EBPC for study. Once the Committee takes jurisdiction over the bills, they are sent to the Fund's actuarial consultant for actuarial and technical review. Throughout the summer and fall, the Committee holds public meetings to receive testimony from interested persons and entities, considers the actuarial impact, and analyzes the bills. In October, the Fund's actuary presents the annual valuation report to the Committee and provides updated actuarial information. The Committee then makes a recommendation on each bill and files their report with the Legislative Council. This report is attached to each bill if introduced to the 2007 Legislative Assembly.

Comprehensive study by this interim committee is very important and helps to ensure that proposals considered by the Legislative Assembly have been carefully considered.

Legislative Proposals Affecting TFFR

Bill No.	Sponsor	Changes
68	TFFR Board	Modifies TFFR definitions, employer contributions, eligibility for benefits, vesting, early retirement, returning to teach, and refunds. See article on page 1.
84	Rep. Klein	Increases employer and employee contribution rates from 7.75% each (total 15.5%) to 8.0% each (total 16.0%).
67	Rep. Klein	Reduces the number of hours that retirees can return to TFFR covered employment to 450-750 hours (based on length of contract) under the general rule; also defines critical shortage areas as math and science only for retirees who return to teach up to full time under the critical shortage area exemption.
73	State Board for Career & Technical Education (CTE)	Allows employees of CTE to transfer retirement plan membership from TFFR to PERS.

Pension Software Project Complete

The decision was made in 2003 to replace TFFR's mainframe pension administration software with CPAS v5, a customizable, off the shelf, pension administration software product. The goal of the replacement project was to update technology, improve service to members and employers, increase data reliability, and provide tools to increase staff productivity. Implementation of the new software will meet these goals and serve the needs of TFFR members and retirees for many years.

The software was put into production in September 2005 and final project signoff occurred in February 2006. The project was completed under budget and about four months over schedule.

Due to the software change, you might notice minor changes in statements, benefit estimates, etc. Please feel free to contact us with any questions or concerns.



Tax Withholding Reminder

Since your TFFR benefits are subject to federal and state taxation, don't forget to periodically review your tax withholding election. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end.

You may elect no withholding, specify withholding based on marital status and allowances, or specify

withholding plus an additional amount. You may also have North Dakota state taxes withheld from your retirement benefit. Keep in mind we can not withhold taxes for another state.

If you would like to start, change, or stop tax withholding, contact our office for a tax withholding form.

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
Teachers' Fund for Retirement
State Investment Board
INVESTMENT OFFICE
RETIREMENT AND
NORTH DAKOTA



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